Financial Statements

Coruripe Energética S.A.

March 31, 2019
with Independent Auditor’s Report

Coruripe Energética S.A.

Financial statements

March 31, 2019

Contents

Centro Empresarial Queiroz Galvão
Torre Cícero Dias
Rua Padre Carapuceiro, 858,
8º andar, Boa Viagem
51020-280 - Recife, PE, Brasil

Tel: (55 81) 3201-4800
Fax: (55 81) 3201-4819
www.ey.com.br

A free translation from Portuguese into English of independent auditor's report on financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

Independent auditor's report on financial statements

To the Shareholders, Board of Directors and Officers
Coruripe Energética S.A.
Iturama - MG

Opinion

We have audited the financial statements of Coruripe Energética S.A. (the "Company"), which comprise the statement of financial position as at March 31, 2019 and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2019, its financial performance and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities, under those standards, are further described in the "Auditor's responsibilities for the audit of financial statements" section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no other realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatements of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

Recife, June 21, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Henrique Piereck de Sá
Accountant CRC PE023398/O-3

Coruripe Energética S.A.

Statement of financial position
March 31, 2019
(In thousands of reais)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	3	**1,197**	238
Trade accounts receivable		**1,006**	-
Inventories		**287**	337
Taxes recoverable		**55**	192
Related parties	4	**-**	24,579
Total current assets		**2,545**	25,346
Noncurrent assets			
Long-term receivables			
Related parties	4	**24,127**	-
Taxes recoverable		**75**	134
Property, plant and equipment	5	**11,137**	11,070
Total noncurrent assets		**35,339**	11,204
Total assets		**37,884**	36,550
Liabilities			
Current liabilities			
Trade accounts payable		**226**	656
Salaries and related charges		**243**	233
Taxes payable	6	**2,627**	2,212
Proposed dividends	8	**9,421**	3,980
Related parties	4	**-**	185
Total current liabilities		**12,517**	7,266
Equity			
Capital	8	**11,211**	11,211
Income reserves		**14,156**	18,073
Total equity		**25,367**	29,284
Total liabilities and equity		**37,884**	36,550

See accompanying notes.

Coruripe Energética S.A.

Statement of profit or loss
Year ended March 31, 2019
(In thousands of reais)

	Note	2019	2018
Net operating revenue	9	**60,039**	30,272
Cost of electric and steam power generation	10	**(21,102)**	(13,954)
Gross profit		**38,937**	16,318
Operating income (expenses)			
General and administrative expenses	10	**(89)**	(179)
Other operating income (expenses), net	10	**(22)**	24
		(111)	(155)
Income before finance income/(costs)		**38,826**	16,163
Finance income/(costs)			
Finance costs	11	**(41)**	(22)
Finance income	11	**1,248**	1,185
		1,207	1,163
Income before income and social contribution taxes		**40,033**	17,326
Income and social contribution taxes	7	**(2,349)**	(1,406)
Net income for the year		**37,684**	15,920

See accompanying notes.

Coruripe Energética S.A.

Statement of comprehensive income
Year ended March 31, 2019
(In thousands of reais)

	2019	2018
Net income for the year	**37,684**	15,920
Other comprehensive income	**-**	-
Comprehensive income for the year	**37,684**	15,920

See accompanying notes.

Coruripe Energética S.A.

Statement of changes in equity
Year ended March 31, 2019
(In thousands of reais)

		Income reserves				
	Capital	Legal reserve	Retained profits	Additional dividends	Retained earnings (accumulated losses)	Total
Balances at March 31, 2017	11,211	2,242	3,891	17,219	-	34,563
Approval of prior-year dividends (Note 8 b)	-	-	-	(17,219)	-	(17,219)
Net income for the year	-	-	-	-	15,920	15,920
Allocation of profits:						
Mandatory minimum dividends (Note 8 b)	-	-	-	-	(3,980)	(3,980)
Additional dividends proposed	-	-	-	11,940	(11,940)	-
Balances at March 31, 2018	11,211	2,242	3,891	11,940	-	29,284
Approval of prior-year dividends (Note 8 b)	**-**	**-**	**-**	**(11,940)**	**-**	**(11,940)**
Payment of interim dividends (Note 8.b)	**-**	**-**	**-**	**-**	**(20,240)**	**(20,240)**
Net income for the year	**-**	**-**	**-**	**-**	**37,684**	**37,684**
Allocation of profits:						
Mandatory minimum dividends (Note 8 b)	**-**	**-**	**-**	**-**	**(9,421)**	**(9,421)**
Additional dividends proposed	**-**	**-**	**-**	**8,023**	**(8,023)**	**-**
Balances at March 31, 2019	**11,211**	**2,242**	**3,891**	**8,023**	**-**	**25,367**

See accompanying notes.

Coruripe Energética S.A.

Statement of cash flows
Year ended March 31, 2019
(In thousands of reais)

	Note	2019	2018
Operating activities			
Income before income and social contribution taxes		**40,033**	17,326
Adjustments to reconcile net income before income and social contribution taxes to cash:			
Interest and monetary variation, net		**(459)**	-
Depreciation	5	**3,625**	4,332
		43,199	21,658
(Increase) decrease in assets			
Trade accounts receivable		**(1,006)**	-
Inventories		**50**	(41)
Taxes recoverable		**(130)**	(185)
Increase (decrease) in liabilities			
Trade accounts payable		**(430)**	(113)
Salaries and related charges		**9**	10
Taxes payable		**54**	(342)
Cash from operating activities		**(1,453)**	(671)
Income and social contribution taxes paid		**(1,866)**	(1,187)
Net cash from operating activities		**39,880**	19,800
Investing activities			
Investment in property, plant and equipment	5	**(3,692)**	(3,447)
Net cash used in investing activities		**(3,692)**	(3,447)
Financing activities			
Dividends paid		**(11,581)**	(24,000)
Intercompany loans granted		**(28,031)**	-
Amortization of intercompany loans		**(185)**	-
Intercompany loans received		**4,568**	-
Net cash used in financing activities		**(35,229)**	(24,000)
Increase (decrease) in cash and cash equivalents		**959**	(7,647)
Cash and cash equivalents			
At beginning of year		**238**	7,885
At end of year		**1,197**	238
Increase (decrease) in cash and cash equivalents		**959**	(7,647)

See accompanying notes.

1. Operations

Coruripe Energética S.A. (“Company”), a privately held company headquartered in the city of Iturama, State of Minas Gerais, was incorporated on November 8, 2001 and started its operations in September 2002. Its sole business purpose consists in the production and sale of electric power, water steam power and items deriving from the co-generation of electric power, as well as the purchase of sugar cane fiber (bagasse) or any other raw materials possibly used in energy production.

<u>ANEEL Authorizations</u>

Resolutions No. 11, of January 11, 2002, and No.1363, of May 13, 2008, issued by the Brazilian Electric Power Regulatory Agency (ANEEL) authorized the Company to operate as an independent power producer. The electric power produced by the Company will be sold in the form of independent power production, pursuant to the conditions established in articles 12, 15 and 16 of Law No. 9074 dated July 7, 1995, as regulated by Decree No. 2003, of September 10, 1996. The authorizations shall remain effective for thirty (30) years as of the date of the related resolutions, and may be extended at ANEEL’s discretion and as requested by the authorized company.

Currently, the Company’s generation installed capacity is 54 MW, including 24 MW at the main plant in Iturama and 30 MW in the Campo Florido unit. The Company operates three steam generating turbo units in a conventional cogeneration thermal cycle, using the sugar cane bagasse as fuel, and having high pressure steam as supplementary energy input, both supplied by related party S/A Usina Coruripe Açúcar e Álcool. The Company is located in the facilities of S/A Usina Coruripe Açúcar e Álcool, which is the Company’s exclusive raw material supplier.

On January 16, 2018, the Electric Energy Trade Chamber (CCEE) approved the Company as CCEE agent, in the Generation category, as an Independent Producer. In the previous model, the Company was subject to an agent.
Approval by CCEE of the Company’s registration as an Agent that may sell power directly opened a series of commercial opportunities, through which the Company may leverage its margins.

2. Presentation of financial statements and summary of significant accounting practices

These financial statements were prepared in accordance with several measurement bases used in accounting estimates. Accounting estimates involved in the preparation of the financial statements were based on both objective and subjective factors and use of professional judgment by management to determine the adequate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include the selection of useful lives of property, plant and equipment and their recoverability in operations, measurement of financial assets at fair value as well as other risk analyses to determine other provisions, including provision for contingencies.

Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent to the estimate process. The Company reviews its estimates and assumptions at least on an annual basis.

The financial statements were prepared and are presented in accordance with the accounting practices adopted in Brazil, which comprise the pronouncements issued by the Brazilian FASB (CPC), approved by Brazil's National Association of State Boards of Accountancy (CFC).

Management represents that all significant information included in the financial statements is evidenced and corresponds to the information used for managing the Company's activities.

The accompanying financial statements were authorized for issue by the Executive Board at the meeting held on June 21, 2019.

2.1. Revenue recognition

Policy applicable as from April 01, 2018

Operating revenue from the normal course of business is measured at the fair value of the consideration received or receivable. Operating revenue is recognized when this revenue represents a transfer (or promise to transfer) products or services to customers in order to reflect the consideration that the Company expects to the entitled to in exchange for these products or services.

CPC 47 establishes a five-step model for recognizing revenue: (i) identifying the contract with the customer; (ii) identifying the performance obligation defined in the contract; (iii) calculating transaction price; (iv) allocating transaction price to contract performance obligations; and (v) recognizing revenue if and when the Company complies with the performance obligations.

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.1. Revenue recognition (Continued)

As such, revenue is recognized only when (or if) the performance obligation is complied with, i.e. when "control" over the assets or services relating to a certain transaction is effectively transferred to the customer. The Company's supply revenue from sale of energy generated is recorded based on guaranteed power and at tariffs established under the terms of the supply agreements or market price in effect, as the case may be. Revenue from power sold is recorded based on power sale agreements entered into with market agents and duly recorded with the Electric Energy Trade Chamber (CCEE).

2.2. Taxes

Income and social contribution taxes

Taxation on income comprises both Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL), which are accounted for on an accrual basis, presented in the statement of profit and loss, and calculated in accordance with current law on taxable income determined in the years ended March 31, 2019 and March 31, 2018, based on the taxable profit computed as a percentage of gross sales, upon application of the respective assumption rates (IRPJ: 8% and CSLL: 12%) and corresponding rates (IRPJ: 15% plus 10% and CSLL: 9%).

Sales taxes

Revenues, expenses and assets are recognized net of sales tax except:

- When the sales taxes incurred on the purchase of goods or services are not recoverable from tax authorities, in which case the sales tax is recognized as part of the cost of acquiring of the asset or expense item as applicable;
- When the amounts receivable and payable are presented together with the amount of sales taxes.

The net value of sales taxes, recoverable or payable, is included as part of receivables or payables in the statement of financial position.

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.3. Financial instruments

Financial assets and liabilities are recognized whenever the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities recognized at fair value through profit or loss) are added to or deducted from the fair value of financial assets and liabilities, if applicable, after initial recognition. Transaction costs directly attributable to the acquisition of financial assets and liabilities at fair value through profit or loss are immediately recognized in the statement of profit or loss.

a) Financial assets

Financial assets are classified into the following specific categories: (i) measured at fair value through profit or loss; and (ii) measured at amortized cost, based on the business model through which these assets are held and on the characteristics of their contractual cash flows. Classification depends on the nature and purpose of the financial assets and is determined on the date of initial recognition. Main financial assets recognized by the Company are as follows:

Financial assets measured at fair value through profit or loss

Financial instruments measured at fair value through profit or loss: these are assets held for trading or designated as such upon initial recognition. The Company manages these assets and make purchase and sale decisions based on fair value of such assets in accordance with documented risk management and Company investment strategy. These financial assets are recorded at fair value and changes thereto are stated in P&L for the year. As at March 31, 2019, the Company has no financial assets classified into this category.

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.3. Financial instruments (Continued)

a) Financial assets (Continued)

Financial assets measured at amortized cost

The Company measures financial assets at amortized cost if both of the following conditions are met: (i) the financial asset is held within a business model aimed at maintaining financial assets in order to receive contractual cash flows; and (ii) the contractual terms of the financial asset originate, at specified dates, cash flows that constitute exclusively payments of principal and interest on the outstanding principal amount. Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recorded in P&L when the asset is written off, subject to change or is impaired. The Company's main financial assets classified into this category are cash and cash equivalents (Note 3), trade accounts receivable and related parties (Note 4).

Impairment of financial assets

Adoption of CPC 48 changed the manner in which companies recorded impairment of financial assets, replacing the incurred loss model set out by CPC 38 for a prospective expected loss model. CPC 48 requires that the Company record a provision for expected credit losses for all debt instruments not held at fair value through profit or loss and contract assets. Management reviewed the calculation of the recoverable amounts of its financial assets and did not deem necessary to record any provision for impairment of Company trade accounts receivable.

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.3. Financial instruments (Continued)

b) Financial liabilities

Financial liabilities measured at amortized cost

Financial liabilities are measured at amortized cost using the effective interest rate method. The Company's main financial liabilities are trade accounts payable, related parties and dividends proposed.

2.4. Cash and cash equivalents

Cash and cash equivalents are held so as to meet short-term cash commitments, rather than for investment or other purposes. The Company considers cash equivalents short-term investments readily convertible into a known cash amounts subject to a low risk of change in value. As such, investments are usually classified as cash equivalents when redeemable in the short term, that is, within three months as from inception date.

2.5. Property, plant and equipment

Property, plant and equipment items are presented at cost, net of accumulated depreciation and/or accumulated losses due to impairment, if any. This cost includes replacement cost of part of property, plant and equipment and borrowing costs for long-term construction projects, when recognition criteria are met. When significant parts of property, plant and equipment are replaced, the Company recognizes these parts as an individual asset item, with a specific useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of profit and loss as incurred.

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.5. Property, plant and equipment (Continued)

Depreciation is calculated on a straight line basis over the estimated useful life of the assets at the rates presented in Note 5.

Property, plant and equipment items are written off when sold or when no future economic benefits are likely to flow to the Company from the use or sale of these assets. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit and loss when the asset is derecognized.

2.6. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) arising from past events, the settlement of which is expected to result in an outflow of funds and for which a reliable estimate can be made. When the Company expects that a provision will be reimbursed, in whole or in part, under an insurance agreement for instance, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is stated in the statement of profit or loss, net of any reimbursement.

Provisions for tax, civil and labor contingencies

The Company has no contingent liabilities whose likelihood of loss, based on the opinion of legal advisors, is estimated as probable. As such, no provision for contingencies was recorded.

2.7. Significant accounting judgments, estimates and assumptions

Judgments

The preparation of the financial statements of the Company requires that management make judgments and estimates and adopt assumptions that affect the amounts disclosed referring to revenues, expenses, assets and liabilities, as well as the disclosures of contingent liabilities, as at the date of the financial statements. However, uncertainty related to these assumptions and estimates could lead to results that require significant adjustment at book value of asset or liability affected in future periods.

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.7. Significant accounting judgments, estimates and assumptions (Continued)

Estimates and assumptions

Significant assumptions regarding sources of uncertainty in future estimates and other major sources of uncertainty in estimates as at the statement of financial position date, involving a significant risk that a significant adjustment to the carrying amount of assets and liabilities may be required in the next financial year are discussed below.

Impairment of nonfinancial assets

An impairment loss exists when the book value of an asset of cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. Fair value less cost to sell is calculated based on information available about similar assets sold or market prices less additional costs to dispose of the asset item. Value in use is calculated based on the discounted cash flow model. Cash flows derive from budget for the following five years and include no restructuring activities to which the Company is not yet committed or significant investments that may improve the asset base of the cash generating unit subject to tests. The recoverable amount is sensitive to the discount rate used under the discounted cash flow method, as well as expected future cash receipts, and to the growth rate used for extrapolation purposes.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Based on reliable estimates, the Company records provisions for contingencies that may arise as a result of tax audits by relevant authorities of the jurisdictions in which it operates. The amount of these provisions is based on several factors, such as previous tax audit experiences and different tax ruling interpretations by the taxable entity and relevant tax authorities. These different interpretations may arise in a wide range of issues, depending on the prevailing conditions in the respective domicile of the Company.

(In thousands of reais)

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.8. Statements of cash flows

The statement of cash flow was prepared by the indirect method and is presented according to NBCT 3.8 - Cash Flow Statement (equivalent to CPC 03 (R2) issued by the Brazil's National Association of State Boards of Accountancy (CFC). Where applicable, the Company presents interest paid on loans and financing as part of its financing activities.

2.9. Adoption of new accounting pronouncements

CPC 48 - Financial Instruments:

Effective as from January 01, 2018 (with effects as from April 01, 2018 for the Company), CPC 48 replaced CPC 38 – Financial Instruments: Recognition and Measurement. Major changes brought by this pronouncement are (i) all financial assets should be initially recognized at fair value; (ii) the standard divides all financial assets, currently within the scope of CPC 38, into two categories: amortized cost and fair value; (iii) categories available for sale and held to maturity relating to IAS 38 were eliminated; and (iv) the concept of embedded derivatives relating to IAS 38 no longer exists in accordance with the concepts of this new standard.

Based on application thereof, the Company concluded that CPC 48 impact on its financial statements referred to change in classification of financial instruments, as follows:

Financial assets/liabilities	Previous classification under CPC 38 (until 03/31/2018)	Current classification under CPC 48 (03/31/2019)
Cash and cash equivalents	Fair value through profit or loss	Amortized cost
Short-term investments	Assets held to maturity	Fair value through profit or loss
Trade accounts receivable	Loans and receivables	Amortized cost
Related parties	Loans and receivables	Amortized cost
Trade accounts payable	Other financial liabilities	Amortized cost

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.9. Adoption of new accounting pronouncements (Continued)

CPC 47 – Revenue from Contracts with Customers:

CPC 47, effective as from January 01, 2018 (with effects as from April 01, 2018 for the Company), establishes a simple model to account for revenue from contracts with customers and replaces the existing revenue recognition guidelines in CPC 30 (R1) - Revenues and CPC 17 (R1) Construction Contracts and related interpretations.

This pronouncement establishes that an entity must recognize revenue when this revenue represents a transfer (or promise to transfer) products or services to customers in order to reflect the consideration that the Company expects to receive in exchange for these products or services. CPC 47 introduces a five-step model for recognizing revenue: (i) identifying the contract with the customer; (ii) identifying the performance obligation defined in the contract; (iii) calculating transaction price; (iv) allocating transaction price to contract performance obligations; and (v) recognizing revenue if and when the Company complies with the performance obligations.

In accordance with the pronouncement requirements, revenue is recognized only when (or if) the performance obligation is complied with, i.e. when “control” over the assets or services relating to a certain transaction is effectively transferred to the customer. Additionally, this pronouncement requires more detailed disclosures relating to contracts with customers. This change had no significant impact on Company financial statements (Note 2.1).

2.10. New standards and interpretations not yet in effect and not early adopted

CPC 06 (R2) – Leases

Issued on January 13, 2016 and in effect as from January 01, 2019 (with effects as from April 01, 2019 for the Company), establishes, for the lessee, a new manner in which to record leases currently classified as operating leases, similarly to accounting for finance leases. For lessors, this pronouncement maintains CPC 06 (R1) requirements, including only a few additional disclosure aspects.

CPC 06 (R2) replaces existing lease requirements, including CPC 06 (R1) Leases and ICPC 03 Supplementary Aspects relating to Leases.

(In thousands of reais)

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.10. New standards and interpretations not yet in effect and not early adopted (Continued)

CPC 06 (R2) – Leases

CPC 06 (R2) introduces a single model for lessees to record leases in the statement of financial position. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, i.e. lessors continue to classify leases as finance or operating leases.

The Company analyzed this pronouncement and does not expect CPC 06 (R2) to have a significant impact on these financial statements.

3. Cash and cash equivalents

	2019	**2018**
Bank checking account	**1,197**	238
	1,197	238

(In thousands of reais)

4. Related parties

		2019	2018
Current assets			
Advances for dividends	(c)	**-**	24,579
		-	24,579
Noncurrent assets			
Loan			
S/A Usina Coruripe Açúcar e Álcool	(b)	**24,127**	-
		24,127	-
Current liabilities			
Loan			
C. Engenharia S.A.		**-**	185
		-	185
Statement of profit or loss			
Steam power sales	(a)	**5,126**	5,278
Purchase of sugar cane fiber (bagasse)	(a)	**(4,228)**	(4,498)
Purchase of steam power	(a)	**(898)**	(782)
		-	(2)

(a) The Company has a steam power purchase and sale agreement with S/A Usina Coruripe Açúcar e Álcool, whereby the Company buys "in natura" bagasse and sells steam power, effective until December 31, 2023, and which may be extended if so mutually agreed upon by the parties thereto. The prices were defined by the parties and are annually restated based on the accumulated IGP-M rate variation for the period;

(b) This refers to a loan agreement entered into with parent S.A. Usina Coruripe Açúcar e Álcool, subject to interest of 7.7% p.a. and Tax on Financial Transactions (IOF);

(c) This refers to advances for future dividends, which were offset against payment of prior years' dividends and current year's intercalary dividends approved at a Shareholders' Meeting;

(d) The Company has a free assignment agreement relating to certain chattels and industrial plant areas of parent S.A. Usina Coruripe Açúcar e Álcool, in the Iturama unit, in force until December 2022 and in the Campo Florido unit, in force until December 2037, which are used as Company facilities to generating electric power.

As at March 31, 2019 and 2018, no management compensation was paid by the Company.

(In thousands of reais)

5. Property, plant and equipment

a) Balance breakdown

		2019			2018
	Average depreciation rates (% p.a.)	**Cost**	**Accumulated depreciation**	**Net**	**Net**
Property, plant and equipment in use					
Buildings	7	**85**	**(45)**	**40**	42
Improvements	2	**1,675**	**(781)**	**894**	942
Machinery and equipment	5	**50,509**	**(44,060)**	**6,449**	6,353
Facilities	6	**1,651**	**(1,289)**	**362**	327
Furniture and fixtures	10	**22**	**(9)**	**13**	3
Major maintenance	100	**17,168**	**(15,765)**	**1,403**	-
		71,110	**(61,949)**	**9,161**	7,667
Work in progress	-	**78**	**-**	**78**	903
Advances to suppliers	-	**7**	**-**	**7**	7
Major maintenance	-	**1,891**	**-**	**1,891**	2,493
		73,086	**(61,949)**	**11,137**	11,070

b) Changes in balances

	Balance in 2018	**Additions**	**Depreciation**	**Transfers**	**Balance in 2019**
Buildings	42	**-**	**(2)**	**-**	**40**
Improvements	942	**-**	**(48)**	**-**	**894**
Machinery and equipment	6,353	**141**	**(857)**	**812**	**6,449**
Facilities	327	**-**	**(23)**	**58**	**362**
Furniture and fixtures	3	**11**	**(1)**	**-**	**13**
Major maintenance	-	**1,604**	**(2,694)**	**2,493**	**1,403**
Work in progress	903	**45**	**-**	**(870)**	**78**
Advances to suppliers	7	**-**	**-**	**-**	**7**
Major maintenance	2,493	**1,891**	**-**	**(2,493)**	**1,891**
	11,070	**3,692**	**(3,625)**	**-**	**11,137**

(In thousands of reais)

6. Taxes payable

	2019	2018
Corporate Income Tax (IRPJ)	**136**	14
Social Contribution on Net Profit (CSLL)	**66**	46
Tax on Financial Transactions (IOF)	**2,358**	2,111
Other	**67**	41
	2,627	2,212

7. Income and social contribution taxes

Reconciliation of income and social contribution tax expenses for the years ended March 31, 2019 and 2018 at statutory rates is as follows:

	2019		2018	
	IRPJ	CSLL	IRPJ	CSLL
Gross sales revenue (Note 9)	**63,271**	**63,271**	32,403	32,403
Profit assumption rate	**8%**	**12%**	8%	12%
Taxable profit computed as a percentage of gross sales	**5,062**	**7,593**	2,592	3,888
Finance income (Note 11)	**1,248**	**1,248**	1,185	1,185
	6,310	**8,841**	3,777	5,073
Deductible amount	**(240)**	**-**	(240)	-
Tax base of taxable profit computed as a percentage of gross sales	**6,070**	**8,841**	3,537	5,073
IRPJ and CSLL expenses accounted for	**(1,553)**	**(796)**	(931)	(475)
Effective rate	**26%**	**9%**	26%	9%

8. Equity

a) Capital

As at March 31, 2019 and 2018, paid-in capital totaled R$11,211, comprising 30,465 common shares with par value of R$368.00 each, held as follows:

	03/31/2019		03/31/2018	
Shareholder	Shares	%	Shares	%
S/A Usina Coruripe Açúcar e Álcool	**30,465**	**100.00%**	-	-
S.M. Participações e Empreendimentos Ltda.	**-**	**-**	10,155	33.33%
R.W. Participações e Empreendimentos Ltda.	**-**	**-**	10,155	33.33%
V.W. Participações e Empreendimentos Ltda.	**-**	**-**	10,155	33.33%
	30,465	**100.00%**	30,465	100.00%

(In thousands of reais)

8. **Equity** (Continued)

a) Capital (Continued)

On March 13, 2019, management approved, by means of a Special General Meeting, the Agreement for Accord and Satisfaction and Other Covenants, which transferred all Company shares to S/A Usina Coruripe Açúcar e Álcool, through partial amortization of the debt existing between S/A Usina Coruripe Açúcar e Álcool and Coruripe Holding S.A.

b) Allocation of profits

In accordance with Company articles of organization, shareholders are entitled to mandatory minimum dividends of 25% on net income for the year, and management may authorize the payment of interim and intercalary dividends.

Company management proposed the distribution of dividends for the years ended March 31, 2019 and 2018, as follows:

	2019	**2018**
Net income for the year	**37,684**	15,920
(-) Legal reserve - 5% (*)	**-**	-
Dividend calculation base	**37,684**	15,920
Mandatory minimum dividends – 25%	**(9,421)**	(3,980)

(*) At March 31, 2019 and 2018, legal reserve is capped at the amount set forth by law informed in item "c.1".

On December 12, 2017, the Annual Shareholders' Meeting approved the allocation of profits for the year ended March 31, 2017, including the amount of R$ 17,219 referring to mandatory minimum dividends for that year.

(In thousands of reais)

8. **Equity** (Continued)

b) Allocation of profits (Continued)

On August 16, 2018, the Annual Shareholders' Meeting approved the allocation of profits for the year ended March 31, 2018, including the amount of R$ 3,980 corresponding to mandatory minimum dividends and R$ 11,940 referring to dividends in addition to mandatory dividends for that year, offset against dividends prepaid over the year.

On March 11, 2019, management approved, in a Special General Meeting, an advanced payment of dividends to Company shareholders, amounting to R$ 20,240, offset against dividends prepaid over the year.

	2019	**2018**
Opening balance (Note 4)	24,579	23,538
Offset:		
Against mandatory minimum dividends	**(3,980)**	(5,740)
Against additional dividends proposed	**(32,180)**	(17,219)
Advanced dividends	**11,581**	24,000
Closing balance (Note 4)	**-**	24,579

c) Income reserves

i) *Legal reserve*

The legal reserve is recorded based on the allocation of 5% of net income for the year, limited, however, to 20% of capital.

ii) *Retained profits*

The remaining balance of retained earnings is available for allocation by shareholders.

(In thousands of reais)

9. Net operating revenue

	2019	2018
Gross revenue		
Energy generation revenue	**45,437**	27,125
Energy resales revenue	**12,708**	-
Steam generation revenue	**5,126**	5,278
	63,271	32,403
Deductions from gross revenue		
Sales taxes	**(3,232)**	(2,131)
	(3,232)	(2,131)
	60,039	30,272

10. Operating costs and expenses

	2019	2018
Costs and expenses by function:		
Cost of electric and steam power generation	**(13,113)**	(13,954)
Cost of energy resales	**(7,989)**	-
General and administrative expenses	**(89)**	(179)
Other operating income, net	**(22)**	24
	(21,213)	(14,109)

	2019	2018
Cost of electric and steam power generation		
Raw material	**(4,964)**	(4,943)
Energy - Resale	**(7,989)**	-
Depreciation	**(3,625)**	(4,332)
Third-party services	**(1,058)**	(1,013)
Personnel	**(1,048)**	(1,021)
Distribution charges	**(1,696)**	(1,627)
Taxes	**(137)**	(117)
Consumables	**(585)**	(901)
	(21,102)	(13,954)
General and administrative expenses		
Third-party services	**(42)**	(144)
Personnel	**(4)**	(3)
Taxes	**(21)**	(19)
Consumables and other materials	**(22)**	(13)
	(89)	(179)
Other operating income (expenses)		
IOF on loan agreement	**(22)**	-
Reversal of provision	**-**	24
	(22)	24

(In thousands of reais)

11. Finance income and costs

	2019	2018
Finance costs		
Other finance costs	**(41)**	(22)
	(41)	(22)
Finance income		
Short-term investment yield	**1,248**	1,185
	1,248	1,185
	1,207	1,163

12. Commitments

The Company has power sale agreements involving the following volumes of MWH/year:

Year	Volume in MWH
2019/2020 harvest	**315,865**
	315,865

13. Financial instruments, and financial risk management objectives and policies

a) Financial instruments

The Company's main financial instruments are cash and cash equivalents, trade accounts receivable, trade accounts payable, dividends proposed and related parties.

Fair value of financial instruments is the amount for which an asset or a liability may be exchanged or settled, between known parties willing to carry out a fair market transaction, rather than in a sale or distressed liquidation. At March 31, 2019 and 2018, the book value of Company financial instruments did not significantly differ from market value.

The Entity has no hedge, swap or any other transactions involving derivative financial instruments.

13. Financial instruments, and financial risk management objectives and policies (Continued)

b) Financial risks management objectives and policies

Company management oversees the management of these risks. The main financial risk-taking activities are governed by appropriate policies and procedures, and the financial risks are identified, measured and management in accordance with Company policies and risk appetite.

The Company's main financial liabilities are trade accounts payable and related parties. The main purpose of these financial liabilities is to raise funds for Company operations.

Throughout the year, the Company has trade accounts receivable and cash and cash equivalents arising directly from its operations. The Company does not engage in derivative transactions. The Company is exposed to market, credit and liquidity risk.

Management reviews and establishes policies for managing each one of these risks, which are summarized below.

Market risk

This is the risk that the fair value of the future cash flows of a financial instrument will fluctuate due to changes in market prices. Considering that the Company is part of the electric power market chain, this risk may occur as a result of the price policy regulation by regulatory agencies, among other factors. Management considers this a remote possibility.

Credit risk

This is the risk of financial loss due to a counterparty's failure to perform an obligation under a financial instrument or customer contract. The Company is exposed to credit risk arising from its operating activities (especially relating to accounts receivable) and financing activities, including deposits in banks and financial institutions and other financial instruments.

13. Financial instruments, and financial risk management objectives and policies (Continued)

b) Financial risks management objectives and policies (Continued)

Financial instruments and cash deposits

The credit risk represented by balances with banks and financial institutions is managed by Company Treasury Department in accordance with the policy established by the area. Excess funds are invested only in approved counterparties and within the limit set for each. The counterparties' credit limit is reviewed annually by Company management and may be adjusted throughout the year. These limits are set to minimize risk concentration, thus mitigating financial loss in case of a counterparty's potential bankruptcy.

Liquidity risk

The main purpose of the Company is to use funds arising only from its operating cash flow, using long-term bank loans only when its operating cash flows are insufficient to meet its cash and financing needs.

14. Insurance coverage

As at March 31, 2019, the Company and its related party S/A Usina Coruripe Açúcar e Álcool had their assets covered by joint insurance policies against fire and multiple perils in the amount of R$ 624,000 (R$ 561,000 in 2018).

According to the Company's insurance brokers, the amount insured as at March 31, 2019 is deemed sufficient to cover losses, if any.

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